

Service Date: January 15, 1999

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

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IN THE MATTER OF the Application of)	UTILITY DIVISION
Regal Telephone Company, Inc., a division of)	
Regal Diversified, and U S WEST)	DOCKET NO. D98.12.278
Communications, Inc. Pursuant to)	
Section 252(e) of the Telecommunications Act)	ORDER NO. 6138
of 1996 for Approval of their Interconnection)	
Agreement.)	

FINAL ORDER

Introduction and Procedural Background

1. On February 8, 1996, the Telecommunications Act of 1996 (1996 Act)¹ was signed into law, ushering in a sweeping reform of the telecommunications industry that is intended to bring competition to the local exchange markets. The 1996 Act sets forth methods by which local competition may be encouraged in historically monopolistic local exchange markets. The 1996 Act requires companies like U S WEST Communications, Inc. (U S WEST) to negotiate agreements with new competitive entrants in their local exchange markets. 47 U.S.C. §§ 251 and 252.

2. U S WEST Communications, Inc. (U S WEST) entered into a resale agreement with Regal Telephone Company, Inc. (Regal) for resale of U S WEST services according to the 1996 Act. U S WEST filed the parties' agreement, entitled "Phase Two Resale Agreement

¹ Telecommunications Act of 1996, Pub. L. No. 104-104, 110 Stat. 56 (to be codified as amended in scattered sections of 47 U.S.C.).

Between Regal Telephone Company, Inc., a division of Regal Diversified and U S WEST Communications, Inc. for Montana” (Agreement) with the Montana Public Service Commission (Commission) on December 1, 1998. The Agreement was docketed as D98.12.278 and it provides for Regal to resell U S WEST’s local exchange services in Montana.

3. On December 7, 1998, the Commission issued a Notice of Application for Approval of Phase Two Resale Agreement and Opportunity to Intervene and Comment, giving public notice of the requirements that the Commission approval of the filing be nondiscriminatory toward other telecommunications carriers not parties to the agreement and be consistent with the public interest, convenience and necessity. The notice stated that no public hearing was contemplated unless requested by an interested party by December 21, 1998. The notice further stated that interested persons could submit limited comments on whether the agreement met these requirements no later than December 31, 1998.

4. No hearing has been requested and no comments or requests for intervention received in regard to the Regal Agreement. The Regal Agreement is substantially the same as previously approved interconnection agreements between U S WEST and other competitive local exchange carriers (CLECs). The Commission has rejected certain provisions in many of these contracts and directed U S WEST to remedy its failure to comply with Commission orders in any future filing.

5. U S WEST’s application for approval states that it “is in conformance with prior decisions of this Commission, is in the public interest, and does not discriminate against other telecommunications carriers.” This “phase two” agreement is not the same as prior resale agreements, although it appears to include substantially the same content as these prior agreements. For the reasons explained below, the Commission approves the Agreement in part

and rejects several sections of the Agreement which are not consistent with prior Commission decisions.

Applicable Law and Commission Decision

6. The standards for approving an interconnection agreement differ, depending on whether the agreement has been voluntarily negotiated or has been arbitrated by a state commission. 47 U.S.C. § 252(e)(2). The Agreement submitted for approval in this proceeding was negotiated voluntarily by the parties and thus must be reviewed according to the provisions in 47 U.S.C. § 252(e)(2)(A).

7. Section 252(e)(4) of the 1996 Act provides that a negotiated agreement submitted for a state commission's approval must be approved or rejected within 90 days or it will be deemed approved. Thus, Commission approval or rejection according to the substantive standards set forth in the 1996 Act must issue by March 2, 1999, 90 days following the submission of the Regal Agreement for Commission approval.

8. The Commission must approve or reject the agreement, with written findings as to any deficiencies. 47 U.S.C. § 252(e)(1). Section 252(e)(2)(A) prescribes the grounds for rejection of an agreement reached by voluntary negotiation:

(2) GROUNDS FOR REJECTION.--The State commission may only reject--

(A) an agreement (or any portion thereof) adopted by negotiation under [47 U.S.C. § 252(a)] if it finds that

(i) the agreement (or portion thereof) discriminates against a telecommunications carrier not a party to the agreement; or

(ii) the implementation of such agreement or portion is not consistent with the public interest, convenience, and necessity;

9. Notwithstanding the limited grounds for rejection in 47 U.S.C. § 252(e)(2)(A), the Commission's authority is preserved in § 252 (e)(3) to establish or enforce other requirements of Montana law in its review of arbitrated or negotiated agreements, including requiring compliance with state telecommunications service quality standards or requirements. Such compliance is subject to § 253 of the 1996 Act, which does not permit states to permit or impose any statutes, regulations, or legal requirements that prohibit or have the effect of prohibiting market entry.

10. Unlike an agreement reached through arbitration, a voluntarily negotiated agreement need not comply with standards set forth in §§ 251(b) and (c). Sections 251(b), 252(c) and 252(a)(1) of the Act permit parties to agree to rates, terms and conditions for interconnection that may not be deemed just, reasonable and nondiscriminatory, and which are not determined according to the pricing standards included in § 252(c) of the Act, as would be required in the case of arbitrated rates set by the Commission.

11. By approving this Agreement, the Commission does not intend to imply that it approves of all the terms and conditions included in the Agreement and makes no findings herein on the appropriateness of many of the terms and conditions. Our interpretation of the 1996 Act is that §§ 252(a) and (c) prevent the Commission from addressing such issues in this proceeding.

12. No comments have been received that express any reservations about the parties' agreement not complying with federal law as cited above or with state telecommunications requirements. The Montana Consumer Counsel, who represents the consumers of the State of Montana, has not intervened in this approval proceeding, and has not filed comments to indicate that any portion of the agreement is not consistent with the public interest, convenience and

necessity. There have been no objections raised that the Agreement discriminates improperly or is not consistent with the public interest, convenience and necessity.

13. The Commission finds that the terms in the parties' Agreement appear to conform to the standards required by the 1996 Act and should be approved, with certain exceptions. In this approval proceeding, the Commission is guided by provisions in state and federal law that have been enacted to encourage the development of competitive telecommunications markets. Section 69-3-802, MCA, for example, states that it is the policy of the State of Montana to encourage competition in the telecommunications industry and to provide for an orderly transition to a competitive market environment.

The Commission rejects the following terms:

14. Construction - Section (B)2.12 of the Agreement (p. 27) states:

Resold services are available only where facilities currently exist and are capable of providing such services without construction of additional facilities or enhancement of existing facilities. However, if Regal requests that facilities be constructed or enhanced to provide resold services, USW will review such requests on a case-by-case basis and determine if it is economically feasible for USW to build or enhance facilities. If USW decides to build or enhance the requested facilities, USW will develop and provide to Regal a price quote for the construction. If the quote is accepted, Regal will be billed the quoted price and construction will commence after receipt of payment.

This provision is substantially the same as prior sections relating to construction of new facilities.

In fact, the language is nearly a verbatim repetition of the sections that the Commission has rejected time and time again because they are not in the public interest. As we have previously stated,

Circumstances may arise where U S WEST is required by law to construct facilities. The parties may agree to the terms in Section [(B)2.12] for instances where U S WEST is not required to construct facilities, but the Commission rejects this section as presently written because it does not consider such instances. The parties may amend this section of the Agreement to so provide.

In the Matter of the Application of Stargate Communications, Inc. and U S WEST Pursuant to Section 252(e) of the Telecommunications Act of 1996 for Approval of their Resale Agreement, Docket No. D97.10.209, Order No. 6040 ¶ 15 (Jan. 12. 1998). The Commission again finds that this provision could conflict with the public interest and should be rejected.

15. Payment – In prior agreements, the Commission has rejected sections relating to payment of amounts due by resellers to U S WEST and sections relating to dispute resolution procedures because the sections were not consistent with the public interest. In particular, the Commission has rejected sections which may directly effect consumers because the agreements contained no provision for advance notification to the Commission so the Commission can take action if necessary to protect the interests of subscribers. The “Phase Two” Agreement contains several sections which, when read together, raise questions whether the Commission would be notified in time to take necessary action.

16. The Commission is particularly concerned that, if payment by Regal to U S WEST is not made pursuant to the terms of the agreement, Regal’s end user customers’ local exchange service could be placed in jeopardy of being disconnected through no fault on their part. There is no specific provision for Commission notification as there has been in the amended agreements previously approved by the Commission and the sections in the Agreement that relate to payment default are scattered throughout the agreement. The following sections of the Agreement relate to or affect the treatment of nonpayment by Regal to U S WEST in pertinent part:

(A)3.13 Default: If either Party defaults in the payment of any amount due hereunder, or if either Party violates any other material provision of this Agreement, and such default or violation shall continue for thirty (30) calendar

days after written notice thereof, the other party may seek relief in accordance with the Dispute Resolution provision of this Agreement. . . .

(A)3.18.3 Dispute Resolution: . . . The Parties shall advise the Commission that they will be settling a dispute through arbitration as soon as reasonably possible and in every instance prior to retaining an arbitrator. The Parties shall file a copy of each arbitration opinion with the Commission within ten (10) days of service of same. . . . It is acknowledged that the Parties, by mutual, written agreement, may change any of these arbitration practices for a particular, some, or all dispute(s).

(B)5.4 Billing: USW may disconnect for the failure by Regal to make full payment for the resold services provided under this Agreement within sixty (60) calendar days of the due date on Regal's bill. . . .

17. When Regal's services are subject to termination, all its customers may be affected. The reality of this was demonstrated this past year by another reseller who provided resold service to hundreds of Montana consumers. The reseller ceased doing business, notifying its customers only at the last minute. The reseller had an overdue bill for which U S WEST had started collection efforts at the time the Commission became aware of the problem.

18. Like prior agreements, these sections contain no provision for notification to the Commission of a pending disconnection of service to an indeterminable number of end users. U S WEST must follow certain Commission rules prior to terminating service to its own end users--as must Regal. If notified of a pending termination of service to Regal's customers, the Commission can act appropriately. It is not consistent with the public interest to permit U S WEST to terminate service to Regal's end users with no notification to the Commission. The Commission rejects the above sections of the Agreement because when read together, they allow U S WEST to forego such notification. Rejecting one or two but not all three of the above quoted provisions does not resolve the problem adequately. The parties may amend these sections of the Agreement to include a notification provision that allows for a reasonable

notification to the Commission that will afford the Commission time in which to take any appropriate action to protect end users.

19. Dispute Resolution - The Commission has repeatedly concluded that the public interest and the facilitation of market entry is better served by a notification to the Commission that the parties intend to resolve disputes through an arbitrator who is not the Commission. Section (A)3.18.3 set forth in part above provides that the parties may mutually agree to change the provisions for arbitration. The Commission interprets the last sentence in § (A)3.18.3 as allowing U S WEST and Regal to mutually agree to provide no notification to the Commission. This is not consistent with the public interest, convenience and necessity.

20. In a July 24, 1998, letter to Rick Hays, U S WEST's Montana Vice President, Commission Chairman Dave Fisher expressed the Commission's significant concern that U S WEST was ignoring Commission directives in prior orders with respect to new resale and interconnection agreements it negotiated and filed for Commission approval. *See, e.g., In the Matter of the Application of Firstel, Inc.*, Docket No. D98.1.15, Order No. 6059 (Mar. 16 1998) The Commission stated,

. . . U S WEST's persistence in using these terms despite their continued rejection creates additional work for the Commission, its staff, and the parties to the agreements. Once a contract provision is rejected and the reasons for the rejection are explained, the provision should not be included in future agreements. This will lessen the need for further amendments to the agreements and will expedite resellers' market entry.

Id. Mr. Hays responded on July 10, 1998, that U S WEST had taken action to address the Commission's concerns and stated that all future agreements would contain the Commission's mandated changes.

21. Despite this assurance that future agreements would be cured, U S WEST filed this agreement which continues to ignore two of the directives repeatedly issued by the Commission. Future filings by U S WEST that continue to flout Commission orders will be rejected. The Commission regrets that it must take this action because it is the reseller or interconnector who may be placed at a disadvantage. However, U S WEST negotiates its standard agreements with most of these competitive exchange carriers and appears to control much of their content. By continuing to negotiate agreements including such terms, and to submit them to the Commission for approval knowing that the Commission will likely reject the terms again, U S WEST delays the entrance of new competitive local exchange carriers in Montana. Such delays are inconsistent with the Commission's statutory duty to facilitate and encourage competitive local exchange markets in Montana.

Conclusions of Law

1. The Commission has authority to supervise, regulate and control public utilities. Section 69-3-102, MCA. U S WEST is a public utility offering regulated telecommunications services in the State of Montana. Section 69-3-101, MCA.

2. Regal intends to resell telecommunications services and interconnect with U S WEST in U S WEST territories throughout Montana. Section 69-3-804, MCA (1995), has previously provided an exemption from Commission regulation for resellers. Senate Bill 89, passed by the 1997 Montana Legislature and signed into law by the Governor of Montana on April 22, 1997, removes the exemption from regulation in Montana for resellers of regulated telecommunications services. As a reseller of regulated telecommunications services in Montana, Regal will be subject to Commission authority to supervise, regulate and control public utilities.

3. Before providing services in Montana, Regal initially will be required to register with the Commission as a telecommunications provider and to provide the requested information to the Commission, if it has not already done so. Section 69-3-805, MCA. In addition, § 69-3-805(1)(e) requires Regal to file initial price lists or tariffs for regulated telecommunications services or to request that filing of such tariffs or price lists be waived by the Commission.

4. The Commission has authority to do all things necessary and convenient in the exercise of the powers granted to it by the Montana Legislature and to regulate the mode and manner of all investigations and hearings of public utilities and other parties before it. Section 69-3-103, MCA.

5. The United States Congress enacted the Telecommunications Act of 1996 to encourage competition in the telecommunications industry. Congress gave responsibility for much of the implementation of the 1996 Act to the states, to be handled by the state agency with regulatory control over telecommunications carriers. *See generally*, the Telecommunications Act of 1996, Pub. L. No. 104-104, 110 Stat. 56 (*amending scattered sections of the Communications Act of 1934*, 47 U.S.C. . . . 151, *et seq.*). The Montana Public Service Commission is the state agency charged with regulating telecommunications carriers in Montana and properly exercises jurisdiction in this Docket pursuant to Title 69, Chapter 3, MCA.

6. Adequate public notice and an opportunity to be heard has been provided to all interested parties in this Docket, as required by the Montana Administrative Procedure Act, Title 2, Chapter 4, MCA.

7. The Commission has jurisdiction to approve the resale agreement negotiated by the parties and submitted to the Commission for approval according to . 252(e)(2)(A). Section 69-3-103, MCA.

8. Approval of interconnection agreements by the Commission is subject to the requirements of federal law as set forth in 47 U.S.C. § 252. Section 252(e) limits the Commission's review of a negotiated agreement to the standards set forth therein for rejection of such agreements. Section 252(e)(4) requires the Commission to approve or reject the Regal Agreement March 2, 1999, or the Agreement will be deemed approved.

Order

THEREFORE, based upon the foregoing, it is ORDERED that the resale agreement of the parties, submitted to this Commission for approval pursuant to the 1996 Act, is approved as discussed herein, subject to the following condition:

1. The parties shall file an amendment to this agreement consistent with this Order within 30 days.
2. The parties shall file all subsequent amendments to the Agreement with the Commission for approval pursuant to the 1996 Act.

DONE AND DATED this 12th day of January 1999, by a vote of 5-0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

DAVE FISHER, Chairman

NANCY MCCAFFREE, Vice Chair

BOB ANDERSON, Commissioner

GARY FELAND, Commissioner

BOB ROWE, Commissioner

ATTEST:

Kathlene M. Anderson
Commission Secretary

(SEAL)

NOTE: Any interested party may request the Commission to reconsider this decision.
A motion to reconsider must be filed within ten (10) days. See ARM 38.2.4806.